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THE IRAN FOREIGN SANCTIONS ACT—S. 1228

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The Iran Foreign Sanctions Act - S.... **ARING**

BEFORE THE

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COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

S. 1228

**TO IMPOSE SANCTIONS ON FOREIGN PERSONS EXPORTING PETROLEUM
PRODUCTS, NATURAL GAS, OR RELATED TECHNOLOGY TO IRAN**

**THE STATUS AND EFFECTIVENESS OF PRESIDENT CLINTON'S
TRADE EMBARGO AGAINST IRAN AND TO UNDERSTAND THE EFFECTS
OF INTERNATIONAL COMPLIANCE WITH THE ADMINISTRATION'S
EFFORT TO RESTRICT TRADE WITH IRAN**

OCTOBER 11, 1995

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

21-456 CC

WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052143-2

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THE IRAN FOREIGN SANCTIONS ACT—S. 1228

WEDNESDAY, OCTOBER 11, 1995

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:00 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Alfonse M. D'Amato (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN ALFONSE M. D'AMATO

The CHAIRMAN. The Committee will come to order.

Before we turn to our witnesses, I'd like to make a statement.

There have been many who have questioned the wisdom of the embargo against Iran. So I think it's important to take a look and to ascertain what has been the case, as opposed to the popular misconceptions that we oftentimes hear. But the facts, I think, will indicate something quite differently.

In just the first 2 weeks following the President's announcement of the Executive Order against Iran, the Iranian currency, known as the rial, fell to an all-time-low of 7,500 rials to the United States dollar. That's down from 4,200 per dollar 2 weeks before. So you see, it had quite an impact on the currency.

The announcement of the ban prompted fears that rising import prices would exacerbate inflation, put conservatively, at 40 percent to even higher levels.

As a result of the falling rial, the regime put an artificial ceiling on the exchange rate at 3,000 rials to the dollar. This has only aggravated the situation, creating a black market rate for the money-changers who are trading at between 5,000 to the dollar and closer to 6,000 in Dubai. The artificial rate has also caused a currency flight overseas, drawing even more money away from the Iranian national reserves.

Now Iran claims that the ban on the purchase of oil by American companies has had no effect. Well, let's look at the record. If this is true, then why have they been unable to resell at least 200,000 of the 600,000 barrels of their daily production that the U.S. oil companies were buying before the trade? Moreover, if the ban has no effect, why then did Iran make a deal with South Africa to store 15 million barrels of Iranian oil there?

All these factors only hinder Iran's ability to service its \$5 billion foreign debt. This has forced the regime to reschedule its debts to foreign creditors, making it harder to line up additional foreign investments inside Iran, a factor crucial to fund its regional aspirations.

Now, we've called this hearing today to explore the status and effectiveness of President Clinton's trade embargo against Iran.

To understand the effect of international compliance with the Administration's effort to restrict trade with Iran in S. 1228, the Iran Foreign Sanctions Act, a bill that I, along with Senators Inouye, Pressler, Faircloth, and Kohl introduced several weeks ago, I feel that the President has made a good first step in banning United States trade with Iran. But I must say, there's more to be done.

We need to have the cooperation of our allies in stopping all trade with Iran. Before the President's Executive Order, our allies complained that as long as the United States was trading with Iran, they would also. Well, today, the United States has in place an embargo on Iran. I'd like to know where our allies stand on this issue now. Why do our allies still trade with Iran?

I'd also like to know what the Administration is doing to stop this. We must convince our allies that their companies' help to Iran in developing its oil fields is really unacceptable. The legislation that we've proposed will help to do that by placing sanctions on any foreign company that supplies Iran with equipment to extract petroleum and natural gas, enabling Iran to obtain hard currency to fund the acquisition of nuclear weapons and to continue its support for terrorism.

Our allies must understand that oil is Iran's lifeline. We're going to persuade the Iranian regime that its behavior is unacceptable. The world must cut this lifeline.

Apparently, some of our allies have yet to join us in our embargo. In fact, they seem to be playing along with the Iranian regime's plan to flaunt the embargo by agreeing to attend an international investment conference in November in Tehran, hoping to sign contracts worth \$6.5 billion. The Iranian regime hopes to take advantage of disagreements with the United States sanctions and thumb its nose at the United States, showing that Iran can survive, and even thrive, despite the trade ban.

This is even more reason to pass the pending legislation.

I'd like to put into the record a letter to the Committee regarding this hearing from Lisa and Ilsa Klinghoffer, the daughters of Leon Klinghoffer, who was killed by a terrorist aboard the Achille-Lauro.

I look forward to hearing the testimony of our witnesses and we certainly look forward to Under Secretary Tarnoff, who will be our first witness.

Mr. Secretary, thank you for coming.

**OPENING STATEMENT OF PETER TARNOFF
UNDER SECRETARY FOR POLITICAL AFFAIRS
U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Mr. TARNOFF. Thank you, Mr. Chairman. It's a pleasure to be back here and to talk to you about this important subject. I have a longer statement that I'd like to submit, with your permission, for the record.

The CHAIRMAN. So ordered.

Mr. TARNOFF. But in a few minutes, I'd like to summarize the main points of my presentation.

On April 30, 1995, President Clinton announced his decision to sever all trade and investment ties between the United States and

Iran. These new sanctions represent American willingness to take actions, even those that may hurt competing United States interests, to increase the cost to Iran of its irresponsible behavior.

Iran engages, as you mentioned, Mr. Chairman, in terrorism. It also obstructs the Arab-Israeli peace process. It pursues weapons of mass destruction and it pursues a threatening military build-up in the Persian Gulf, as well as abusing the human rights of its citizens.

The cut-off in United States trade and investment with Iran took effect just 4 months ago. As this Committee knows well, economic pressure is not an instant remedy. However, there are signs, as you also noted, that our embargo is already squeezing the Iranian economy, even if it is too early to expect conclusive results.

We must look instead to the trends indicating fundamental deterioration in Iran's key economic indicators. Our action is accelerating this decline.

Moreover, the Administration is committed to working alone when necessary and collectively when possible to increase the intensity of international pressure on Iran.

Iran's policies threaten not only America's interests, but those of our allies in Western Europe and Japan. We are asking them to forego the narrow economic benefits of trade with Iran and to exercise responsible leadership in the face of Iran's threatening behavior. Adding their collective strength to our effort would increase significantly the price that Iran's leadership pays for its rogue activities.

The biggest economic problem faced by Iran today is the government shortage of hard currency. Our Iran policy is designed to make it even tougher for the Iranian government to obtain hard currency and thereby constrict its ability to fund those policies that threaten our interests.

While our embargo has just begun to take effect, it has already taken a bite out of Iran's wallet in three ways.

First, the rial, again, as you mentioned, Iran's currency, lost one-third of its value following President Clinton's announcement of the trade and investment against Iran. The strict currency controls that Iran imposed to stabilize the rial will lead to slower growth or recession over the long term.

Second, our embargo forced a temporary drop in Iran's income from crude oil sales. Because U.S. companies are now prohibited from trading in Iranian oil, the government has had to scramble to sell an additional 400,000 barrels per day.

Iran faced the choice of discounting the oil in order to unload it or storing it in the hopes of selling it later at a better price. Iran chose to wait. The resulting costs include delayed oil revenues, increased tanker chartering costs and increased crude oil storage costs. Although these costs are short-term expenses, it is clear that our embargo has cut into Iran's available hard currency.

Our embargo has had a third impact. By aggravating Iran's cash crunch, we are weakening the government's ability to meet its external expenses. Moreover, Iran's financial reputation will only worsen because the government debt payments are scheduled to double in 1996.

Our embargo has exacerbated Iran's difficulty in gaining easy access to foreign capital. Before we impose sanctions on our commercial trade, other governments pointed to American commerce with Iran as a rationalization for promoting bilateral trade and providing financial assistance to Iran. Such assistance, which includes new government credits and development aid, gives Iran new financial resources. By severing the economic activity between the United States and Iran, we increase the political price of such dealings with that country.

Since we imposed the embargo, Iran's key trading partners have not extended any new official credits. My point is this—even if other governments have not rushed to copy United States policy, the steps we have taken have encouraged them to limit the scope of their commercial relations with Iran.

Our investment sanctions prohibit American contributions to the development of Iran's economy, particularly the petroleum sector. That was why the President blocked Conoco, an American company, from working with Iran and that is why it is important for us to convince other governments to take similar measures.

Mr. Chairman, it is important to note that we do not underestimate the impact of our policy on American business. These steps were necessary to strengthen our efforts to pressure Iran to abandon those practices that affect our country's national interests. We believe other governments should also act responsibly and take similar steps to deter Iran's threatening behavior.

The decision of the French firm Total to take up the Conoco deal is extremely regrettable. We strongly urge Total to reconsider its decision and advise others to refrain from similar actions. The highest level officials in this Administration will continue to press our case on Iran with our counterparts from other countries.

It would be a mistake for the United States, however, to exaggerate the gap between our policy and that of most of the other industrialized nations toward Iran. In my discussions, as well as those of Secretary Christopher, with top officials of the G-7 countries, for example, our counterparts expressed their shared concern about Iran's pursuit of weapons of mass destruction, its support of terrorism, and its continued military build-up. Because of these concerns, G-7 countries refuse to engage in any nuclear cooperation with Iran, and they prohibit exports to the Iranian military of arms or sensitive dual-use technology.

We do not believe that engagement with Iran, as advocated by some of our friends, will alter Iran's objectionable behavior. That is why we chose to intensify U.S. leadership by unilaterally imposing new sanctions.

The question at hand is: How can we most effectively convince other governments to join us?

One proposal calls for the United States to boycott those foreign firms that engage in any business activity with Iran. We have carefully reviewed this proposal and rejected it for two reasons. We believe a full secondary boycott would put at risk the cooperation on Iran policy that we share with others, particularly cooperation on critical matters such as denying Iran weapons. We also believe that such interference in the international marketplace would backfire, hurting American businesses and harming the American economy.

Another proposal—suggested by your new bill—is to impose targeted sanctions on foreign companies that provide Iran's petroleum industry with equipment or technology. This action would create additional disincentives for European trade and investment with Iran. Yet, it could also have negative implications for U.S. economic interests by upsetting our relations with key allies and foreign industry.

For example, our partners in GATT, the WTO, and NAFTA would argue strongly that even a limited secondary boycott violates our obligations under these agreements. Moreover, it would be difficult to square a United States secondary boycott with the free trade rhetoric with which we press Arab governments to remove their secondary and tertiary boycotts on Israel.

Other concerns we must all address include our ability to comprehensively monitor the activities of foreign companies, the likely negative reactions of some of our allies, and the impact on U.S. economic competitiveness. Most importantly, we need to assess whether any additional action would contribute to our goal of gaining international support for pressure on Iran.

Our current approach of leading by example and working cooperatively with allies needs to be given a real chance to work. That will take some time. Our patience, however, is not endless. If, after a reasonable period of time, diplomacy alone proves inadequate in achieving an acceptable level of multilateral support for our efforts, we could then consider additional approaches.

Mr. Chairman, I would like to take this opportunity to remind the Committee that our policy of economic pressure is complemented by our ceaseless efforts to convince other governments not to contribute to Iran's pursuit of weapons of mass destruction or its military build-up.

In summary, Mr. Chairman, we believe that our efforts to intensify pressure against Iran are making progress, and that the embargo will make an important contribution. More is being done, especially to win greater support from our friends and allies, above all in the area of investment and financial assistance.

American leadership has been and will continue to be critical to effectively pressing Iran to change its behavior. We are grateful for Congressional support of our actions and to you, Mr. Chairman, for your efforts to focus attention on this very important issue.

Thank you.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Gannon, who is the Deputy Director of Intelligence for the CIA.

Mr. Gannon.

**OPENING STATEMENT OF JOHN C. GANNON
DEPUTY DIRECTOR OF INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY, WASHINGTON, DC**

Mr. GANNON. Thank you, Mr. Chairman.

I am pleased to be able to meet with you this morning. I propose to make some brief general remarks, after which I would be glad to answer any questions you may have. In my remarks, I will offer our assessment of both the short-term and long-term impact of the sanctions implemented against Iran last May.

We have already seen some short-term effects—including some disruption in the oil sector and an increase in domestic prices.

Over the long-term, tightened sanctions are unlikely to have a major impact on the already deteriorating Iranian economy without strong international backing, and we believe this backing will be difficult to obtain.

Finally, I will offer our view that the current Iranian regime, despite its economic problems, has a much better-than-even chance of remaining in power over the next 3 years.

I will first discuss the immediate effect of the sanctions. Despite dismissive public statements by senior Iranian officials, the sanctions have caused temporary economic and psychological blows to Tehran. The ban has fueled domestic price increases and volatility in Tehran's foreign exchange market.

In late May, the government imposed strict foreign exchange controls to prevent a further drop in the value of the rial—which fell by a third in the 2 weeks after the embargo was announced. The rial, however, has since recovered to roughly pre-sanction levels.

The ban has also prompted some disruptions in the oil sector, including higher costs associated with lining up new buyers for Iranian oil. The embargo has set Iranian officials scrambling to establish new contracts for the roughly 400,000 barrels per day of oil that United States companies bought during the first 4 months of the year.

Tehran has opted to market more of its oil abroad rather than directly from its export terminals. This has resulted in somewhat higher transportation and storage costs. Iran has increased spot oil sales to customers in Europe and South Africa. It is working to increase long-term contractual sales to both existing and new customers.

Tehran is trying to conclude a deal with South Africa to store up to 15 million barrels of Iranian oil and sell its oil through a joint Iranian-South African company.

Over the long-term, the sanctions are likely to have little impact on Iran's weakening economy, which is driven primarily by oil exports. Iran will maintain its oil sales because it uses sophisticated marketing tactics and because its crude oil is of good quality.

The ban will not stop major new development projects or prevent maintenance or repairs. At most, it will raise prices, disrupt individual Iranian businesses, and possibly delay some infrastructure projects.

Iran continues to have other trading options. As early as 1980, it was cultivating alternative suppliers to replace United States equipment and has established ties with hundreds of foreign companies. Even the strong growth in United States exports to Iran in the early 1990's reflected only an Iranian preference for, not dependence on, United States goods.

As you know, Mr. Chairman, the strong and sustained support of other countries is essential for sanctions to succeed. The long-term effect on Iran's economy will be minimal unless many more countries join the embargo or withhold significant loans. To date, there has been little international support. A few countries do support the embargo—Israel, El Salvador, and Ivory Coast, for exam-

ple. But these countries have limited economic dealings with Tehran.

Western governments—including many of our European allies—have voiced doubts about the potential impact of sanctions on Iranian behavior. They argue that engagement, not isolation, of Iran offers the best hope of moderating Tehran's behavior. Those with significant credit exposure to Iran—Germany, Japan, and Italy, for example—believe supporting sanctions would jeopardize Iranian debt payments. They also are concerned that joining the ban would threaten their efforts to expand commercial opportunities for their firms.

We have seen a couple of recent exceptions to this trend.

Japan decided to delay the release of the second tranche—about \$460 million—of a loan to finance building a hydroelectric project because of the new sanctions.

Paris has said it will not provide the French energy firm Total with official support for its involvement in Iran's Sirri offshore oil project, which of course is the former Conoco deal.

Other countries have said they might change their policy if other major trading nations did so, or if they had more concrete information on Iran's support for terrorism, its active opposition to the Middle East Peace Process, its violation of human rights at home, or its pursuit of weapons of mass destruction.

As for the future of Iran's regime, we now give it a 3-in-4 chance to stay in power over the next 3 years, despite the worsening economy. Opposition to the government is weak, divided, and tainted by ties to Iraq, which, as you know, fought an 8-year war with Iran.

Judging from past experience, the clergy will likely close ranks against any perceived threats to the regime. Government stability depends largely on the clergy's ability to present a united front in times of crisis. It has done this throughout the life of the Islamic Republic.

Moreover, unrest over economic conditions so far has been spontaneous and poorly coordinated. Protesters have focused more on specific grievances, such as water shortages and fuel prices, than on unseating the mullahs.

Finally, Iran's security forces characteristically employ lethal force to restore order, as they did in the northwestern Iranian city of Qazvin in August, 1994, and in the southern Tehran suburbs of Eslamshahr and Akbarabad in April, 1995.

The longer term outlook for the regime leaders, of course, is much less certain.

We expect economic conditions to continue to deteriorate, independent of sanctions. Iran's economy will experience little or no growth and will suffer continued high inflation over the next several years. These problems will be compounded by the country's fast-growing population, which has increased by a staggering 70 percent in the past 16 years.

Many observers expect that Iran will be forced to request another round of debt rescheduling next year. At that time, the bulk of its rescheduled payments will begin to come due. As living conditions grow harder, public unrest, including demonstrations, will probably increase. This will make it more difficult for the regime to maintain stability.

In closing, let me say that we at the CIA are sensitive to your concerns—and those of the Administration and Congress—on this issue. We will continue as a high priority to monitor and report on political and economic developments in Iran and on Tehran's ability to cope with U.S. Sanctions.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Gannon.

Mr. Gannon, in your remarks, you indicate that a number of our allies have indicated, and have indeed taken some steps as it relates to the embargo with respect to specific deals and with respect to certain of their companies—France being one. I think you mentioned another country. Who else? Japan?

Mr. GANNON. Yes.

The CHAIRMAN. As it relates to making available additional credits, et cetera. You also indicated that some of our allies have indicated that if indeed we can give them additional information or substantiate the Iranian quest for nuclear weapons, or the fact that they are exporting terrorism with more specificity, that they might be willing to consider implementing additional sanctions or implementing these sanctions. Is that correct?

Mr. GANNON. Yes, sir, that is.

The CHAIRMAN. What, if anything, are we doing to provide that kind of information to them?

Mr. GANNON. We have dialogs with several of those governments on this.

The CHAIRMAN. Well, let me back up a second. Do we have information, credible information that would lead us to believe that the Iranians are pursuing the development of nuclear weapons?

Mr. GANNON. Sir, I'd have to ask you to allow me to address that issue in a classified session.

The CHAIRMAN. OK. I didn't ask you how you got the information. But I think it would be safe for me to say, it's been commented on regularly, I think in the April 20, 1995, Washington Post, that Iranian President Rafsanjani declared today that his government has made no decision to seek nuclear weapons, but pledged to continue efforts to acquire technology for nuclear research.

They have indicated this publicly, so this is not classified. We know that there are certain things in a nonclassified way.

What about as it relates to the export of terrorism? Are you convinced that they are pursuing and have pursued that kind of activity?

Mr. GANNON. Yes, sir.

The CHAIRMAN. What are we doing, then, if you can tell me? Are we engaged in attempting to disseminate that information, obviously recognizing those areas that have to be dealt with in a classified manner? You would do that with other intelligence agencies that we cooperate with. Are we attempting to bring them up-to-date on both the terrorist activities and those activities, if any, in regard to their developing a nuclear capacity?

Mr. GANNON. Yes, sir, we are doing that.

The CHAIRMAN. OK. I would hope that we are.

Mr. Secretary, have you noticed any change in attitude in dealing with our allies as it relates to the embargo or the sanctions

that we have put in place and that we are seeking them to undertake?

Mr. TARNOFF. I think, Mr. Chairman, that we have noted a change in attitude, not sufficient, in our view, because we have confirmed here no other government has adopted the range of sanctions that the President mandated earlier this year. But in several cases, I think the willingness of governments to provide official credits—take the case of Japan, which is still withholding additional credits for a major dam project.

Even in the case of the French company, Total, which has taken over the Conoco deal, the French government has stated very explicitly that there will be no official credits, official government credits, to promote that deal as well.

So I think our impression is that the measures that we have taken have had some effect on attitudes in other governments.

The CHAIRMAN. Now, from the information that both Mr. Gannon and you have provided today, and others of the Committee have received, we see that the Iranians have not been able to dispose of approximately 200,000 barrels of oil on a daily basis. Is that correct?

Mr. TARNOFF. I defer to Mr. Gannon for part of that. But our information, Mr. Chairman, is that in recent weeks, they have managed to find outlets for the oil, as the winter season has come about.

But, nonetheless, they incurred delays in receiving payment for it. They had to assume storage charges and therefore, there was a cost. But I believe our information is that slowly, they are finding markets for at least the bulk of that oil.

The CHAIRMAN. Is that your understanding?

Mr. GANNON. Mr. Chairman, Mr. Tarnoff's information concurs with ours.

The CHAIRMAN. During the past few weeks, China said first that the deal to provide a reactor to Iran was terminated. And then said it was merely suspended. Right now, where does that situation stand? If that deal has merely been suspended, what is the Administration doing to persuade the Chinese from terminating it?

Mr. TARNOFF. Mr. Chairman, the question of cooperation between China and Iran in several respects had been the subject of quite a bit of the dialog that we've been having with China over the past 2½ years.

It is true that in meeting with us in recent weeks, the Chinese government did say, did volunteer the information that they would not pursue the nuclear sale of reactors to Iran. Subsequently, they commented that it was suspended, not terminated. But we believe that it was significant that the Chinese volunteered this information. There seems to be no evidence that the deal is on track.

The CHAIRMAN. In light of the recent disclosures about how close Iraq was actually to obtaining a nuclear capacity, what can we say about Iran's capability in that regard? Is there a time period that you have in which you believe they'll have that capacity? Can you give us an estimate?

Mr. GANNON. Sir, we perhaps could do that. I don't have, frankly, the competence to answer that question. I'd have to get back to you on that.

The CHAIRMAN. OK. Would you do that?

Mr. GANNON. I'd be glad to do that, sir.

The CHAIRMAN. If that requires a classified briefing, which it might, I certainly would appreciate undertaking that.

Mr. GANNON. I will do that, sir.

The CHAIRMAN. Mr. Tarnoff, first of all, I applaud the President for undertaking the sanctions. I think they have had an impact very clearly in exacerbating the economic situation that the Iranians have.

The weapons acquisition program, we understand, has been curtailed, to the extent that they have cut it from \$2 billion a year in 1991-1993, it's now estimated, to about \$500 million. And they also reduced funding for the Hezbollah and other radical Islamic client organizations.

So I think that that is a very important contribution that these sanctions have had. That's why, on a bipartisan basis with people like Senator Inouye and Senator Kohl and another half dozen of my colleagues, Democrats and Republicans, we have put forth this legislative proposal, S. 1288, that would seek to bring about additional pressure and sanctions, and it might indeed gain the ire of some of our allies.

But how long do you believe we should wait and persevere the course we are now applying—and I applaud you for that—before we implement this legislation, before I bring it to the floor? Because I think it will pass.

Mr. TARNOFF. Mr. Chairman, I don't want to set a timeline on how long it will be before the measures that the Administration decided on in April have the desired effect. We have agreed in our conversation here today that they have had some effect.

Our overall concern about the elements in the legislation that you propose relates to the fact that, looked at comprehensively, believe that in most, not all, but in most areas, there is really very good cooperation among the major industrialized countries with respect to Iran.

They have, as you indicated, refrained from a nuclear cooperation. They have made very clear that they would not sell arms or arms-related technology to Iran. Increasingly in their public statements, including at the G-7 meeting in Halifax this past summer, under U.S. leadership, the industrialized countries were more and more specific about the dangers in Iran.

Our concern would be that if the United States were to take certain actions that they would regard as hostile to their own companies, that our ability to ensure increasing cooperation in these many other areas would be jeopardized. So this is a judgment call. It's something that we are continuing to evaluate. I think the best way for us to continue to form our opinion would be to commit ourselves, and I will do that here today, to have a constant dialog with you and other Members of the Committee and staff of the Committee, so that you can sense on a continuing basis what our assessment is, both of the effect of the measures that the United States has taken, and second, the degree of cooperation that we are receiving from friends and allies.

Some of this information, of course, will have to be conveyed in a classified setting, as Mr. Gannon indicated.

The CHAIRMAN. Well, Mr. Secretary, let me first assure you, that I will not bring this legislation to the floor without certainly giving you an opportunity to respond and giving you notice.

It is not my intent to attempt to set policy, but, rather, to put pressure on the Iranians. I think that the Administration, when we proposed the sanctions last year, moved in a way that let them know that we are serious. I commend the President for that.

Now, I certainly don't think that this effort, and we will attempt to gain more in the way of support and broaden that support. We currently have eight cosponsors on the bill, and we will try to get more. I think it's important that our allies understand that we really are committed, and they should join in this effort to limit the capacity of Iran to obtain war-like materials, which it does, financed by its oil revenues, and the export of violent revolution and terrorism. We all have a stake in this. Some seek to ignore that.

There are a number of countries, and I would do a disservice to those countries and to our relationship with them if I were to mention them. But there are several, and at some point in time I'd like to speak to you privately about those countries, that I believe could have a tremendous impact in making these sanctions have some real teeth.

If you were to deny, for example, the ability of the Iranians to sell via long-term contract another million-plus barrels a day, that would have a tremendous impact. That would get their attention.

I believe that there are two nations—and I'm not talking about Japan. Let's make that clear—that could easily bring that about with very little in the way of disruption to their own economy. This is the kind of thing that we have got to begin to be more aggressive with our allies to bring this about.

Now I recognize there are lots of things that you're doing, lots of things that the Administration is undertaking. But I want to leave with you this thought.

I'd like to at some point in time review with you and get from you at a classified briefing exactly what our efforts are with some of these allies.

Again, I don't think it would be appropriate to begin to mention names and to say, what are you doing with X and Y and Z. But I do believe that there are some who could really have a significant impact. They are allies that we are playing a key role in in terms of their security. I won't go further. Mr. Gannon, you know who they are. Mr. Secretary, I think you have a pretty good idea of who they are, who I might be talking to, or referring to.

I would hope that we would begin to use some of this leverage. Again, I think when you do it quietly behind the scenes, it has a better opportunity of maybe coming to fruition because no one wants to read about this.

Another government doesn't want to read that the United States says you should be doing this publicly. So I'm going to pursue that.

Senator Faircloth, who is one of our prime sponsors and a cosponsor of this legislation, has joined us. I don't know if the Senator has a statement or has any questions to ask.

Senator Faircloth.

OPENING COMMENTS OF SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman. I really don't have a statement, other than just a brief comment.

Iran has been an outlaw nation since 1979. It's well known that they supported terrorism around the world and they're now trying to acquire the nuclear technology. I find this extremely troubling.

I have supported the sanctions against Iran, and I think the Administration has taken the right position by imposing an economic boycott against Iran. But I think we need to go farther.

The question, as I see it, is whether we should do more to get our allies and other countries—Russia, China, France—are not following our lead and I think they should. But I don't think that we can sit back and wait for those countries to take the lead.

It's up to us to lead and we should do it.

I think we'll have testimony from the CIA today that the current government will probably survive in Iran for about 3 more years. I'm sure this is true. If they're making concerted efforts to acquire nuclear technology, then I think it's incumbent upon us to seriously consider taking stronger action than we have and take action such as the secondary boycott, as Senator D'Amato has suggested, and I think we need to do something to get the situation under control.

Mr. Chairman, I applaud you for taking the lead in this and I welcome the chance to join you in support.

The CHAIRMAN. Thank you very much.

Mr. Secretary, if you have any concluding remarks or thoughts, we'd be pleased to take them.

Mr. TARNOFF. Well, thank you, Mr. Chairman.

I just want to reiterate our commitment to increase the pressure on Iran. We agree totally with your assessment of the dangers that this regime represents. It is, as I indicated in my formal statement, a very high priority for the Administration.

So what we should be talking about and, again, I welcome your invitation to discuss in another setting some of the details of what our policy involves, is how best to obtain the cooperation of those other countries around the world in this effort where Senator Faircloth correctly said, the United States must lead, and lead because it's in our interest. But we also believe it's in the interest of the international community to work together to increase pressure on this rogue state.

The CHAIRMAN. Let me, if I might, say that the legislation which I am cosponsoring would provide a series of mandatory sanctions and discretionary sanctions that the President could place upon any foreign company, foreign person, parent or subsidiary who engages in either trade with Iran in the above-mentioned sector or has requisite knowledge.

Among the mandatory sanctions the President can place upon the offending foreign company are the following. Procurement sanctions, export sanctions, inclusions on the table of denial orders, saying the sanctioned foreign persons shall be included, denial of entry of the persons into the United States.

They are quite extensive. Prohibitions against export-import assistance for exports to foreign persons, denial of loans from U.S. financial institutions, and prohibitions on foreign financial institu-

tions stating that a sanctioned foreign financial institution will lose its designation as a primary dealer.

They're quite extensive. This would give the President the ability to impose any and all of these sanctions.

Now, again, I made a commitment to you. I will not take this to the floor at this time. I will, though, pursue getting additional co-sponsors, along with Senator Faircloth. We have 8 and we have not really begun to pressure this. But I intend to pursue that.

I hope that this will act as the catalyst in a number of areas, both with our allies, with the administration, and also send to the Iranians a message that we do mean business and that we are not prepared to simply allow them to go their way, as Senator Faircloth has indicated, as a rogue nation, exporting terrorism and looking to develop nuclear capacity.

Yes, Senator Faircloth.

Senator FAIRCLOTH. I have one question to Mr. Gannon, if I may, Mr. Chairman.

Mr. Gannon, we know that Iran has supported terrorism around the world. Are they continuing to do so?

Mr. GANNON. Yes, sir.

Senator FAIRCLOTH. Is there evidence that they have supported terroristic acts in this country?

Mr. GANNON. I think I'd prefer to defer that to a classified session, sir, if I could. I'd be happy to do that at your convenience.

Senator FAIRCLOTH. All right. But they are continuing to do so around the world.

Mr. GANNON. Yes, sir.

Senator FAIRCLOTH. That's all. Thank you.

The CHAIRMAN. Mr. Gannon, I want to thank you. Mr. Tarnoff, I want to thank you.

The length of this hearing should not have anything to do with the significance and the import. Sometimes we think that we have lengthy hearings. I think this was very important. I want to thank you personally for your efforts in this area. We look forward to working with both of you and we look forward to asking our staffs to set up a little briefing session so that we might review some of the countries and then some of the activities and the nature of some of those terrorist activities.

Mr. GANNON. Glad to help, sir.

The CHAIRMAN. Yes?

Senator FAIRCLOTH. Mr. Gannon, I will get in touch with you. I would like to.

Mr. GANNON. We will followup.

The CHAIRMAN. We stand in recess.

[Whereupon, at 10:45 a.m., the hearing was concluded.]

[Prepared statements and additional material supplied for the record follow:]

UNDER SECRETARY PETER TARNOFF
:
TESTIMONY BEFORE THE
SENATE BANKING COMMITTEE

OCTOBER 11, 1995

11:00 A.M.

PRESSURE FOR CHANGE:
THE U.S. EMBARGO AGAINST IRAN

INTRODUCTION

ON APRIL 30th OF THIS YEAR, PRESIDENT CLINTON ANNOUNCED HIS DECISION TO SEVER ALL TRADE AND INVESTMENT TIES BETWEEN THE UNITED STATES AND IRAN. THESE NEW SANCTIONS REPRESENT AMERICAN WILLINGNESS TO TAKE ACTIONS, EVEN THOSE THAT MAY HURT COMPETING U.S. INTERESTS, TO INCREASE THE COST TO IRAN OF ITS IRRESPONSIBLE BEHAVIOR. IRAN ENGAGES IN TERRORISM, OBSTRUCTS THE ARAB-ISRAELI PEACE PROCESS, PURSUES WEAPONS OF MASS DESTRUCTION, PURSUES A THREATENING MILITARY BUILD-UP IN THE PERSIAN GULF, AND ABUSES THE HUMAN RIGHTS OF ITS CITIZENS. THESE ACTIVITIES, WHICH THREATEN IMPORTANT U.S. INTERESTS, SHOULD BE UNACCEPTABLE TO ALL MEMBERS OF THE INTERNATIONAL COMMUNITY.

THE CUT-OFF IN U.S. TRADE AND INVESTMENT WITH IRAN TOOK EFFECT JUST FOUR MONTHS AGO. AS THIS COMMITTEE KNOWS WELL, ECONOMIC PRESSURE IS NOT AN INSTANT REMEDY, NOR A POPULAR CURE. THERE ARE SIGNS THAT OUR EMBARGO IS ALREADY SQUEEZING THE IRANIAN ECONOMY. BUT IT IS TOO EARLY TO EXPECT CONCLUSIVE RESULTS. WE MUST LOOK INSTEAD TO THE PATTERN OF FUNDAMENTAL DETERIORATION IN IRAN'S KEY ECONOMIC INDICATORS. OUR ACTION IS ACCELERATING THE DECLINE. TO PRESS THIS CONDITION FURTHER, THE ADMINISTRATION IS COMMITTED TO WORKING - ALONE, WHEN NECESSARY, AND COLLECTIVELY, WHEN POSSIBLE - TO INCREASE THE INTENSITY OF INTERNATIONAL PRESSURE ON IRAN. IRAN'S POLICIES THREATEN NOT ONLY AMERICA'S INTEREST BUT THOSE OF OUR ALLIES IN WESTERN EUROPE AND JAPAN. WE ARE ASKING THEM TO FOREGO THE NARROW ECONOMIC BENEFITS OF TRADE WITH IRAN AND TO EXERCISE RESPONSIBLE LEADERSHIP IN THE FACE OF IRAN'S THREATENING BEHAVIOR. ADDING THEIR COLLECTIVE STRENGTH TO OUR EFFORT WOULD INCREASE SIGNIFICANTLY THE PRICE THE IRANIAN LEADERSHIP PAYS FOR ITS ROGUE ACTIVITIES.

WE WELCOME CONGRESSIONAL SUPPORT FOR OUR POLICY OF PRESSING IRAN FOR CHANGE. YOUR VOICE IS A POWERFUL INDICATION OF AMERICA'S UNWAVERING RESOLVE TO STAY THE COURSE.

INITIAL ECONOMIC IMPACT

THE BIGGEST ECONOMIC PROBLEM FACED BY IRAN TODAY IS THE GOVERNMENT'S SHORTAGE OF HARD CURRENCY. WITHOUT ADEQUATE FUNDS, THE IRANIAN GOVERNMENT CANNOT BUY THE IMPORTS NECESSARY TO PROPERLY SUSTAIN IRAN'S INDUSTRY AND MAINTAIN ITS INFRASTRUCTURE. NOR CAN THE GOVERNMENT FULLY PAY THE BILLIONS OF DOLLARS IT OWES IN FOREIGN DEBT. HARD-PRESSED BY THESE EXPENDITURES, IRAN HAS BEEN FORCED TO REDUCE IMPORTS OF INDUSTRIAL GOODS AND CONSUMER ITEMS. BECAUSE OF THESE CUTBACKS IN IMPORTS, IRAN'S ECONOMY SUFFERS FROM INFLATION AND RECESSION.

OUR IRAN POLICY IS DESIGNED TO MAKE IT EVEN TOUGHER FOR THE IRANIAN GOVERNMENT TO OBTAIN HARD CURRENCY, AND THEREBY CONSTRICT ITS ABILITY TO FUND THOSE POLICIES THAT THREATEN OUR INTERESTS. WHILE OUR EMBARGO HAS JUST BEGUN TO TAKE EFFECT, IT HAS ALREADY TAKEN A BITE OUT OF IRAN'S WALLET IN THREE WAYS. FIRST, THE RIAL, IRAN'S CURRENCY, LOST ONE-THIRD OF ITS VALUE FOLLOWING PRESIDENT CLINTON'S ANNOUNCEMENT OF THE TRADE AND INVESTMENT EMBARGO AGAINST IRAN. THE STRICT CURRENCY CONTROLS THAT IRAN IMPOSED TO STABILIZE THE RIAL WILL LEAD TO SLOWER GROWTH OR RECESSION OVER THE LONG-TERM.

SECOND, OUR EMBARGO FORCED A TEMPORARY DROP IN IRAN'S INCOME FROM CRUDE OIL SALES. BECAUSE U.S. OIL COMPANIES ARE NOW PROHIBITED FROM TRADING IN IRANIAN OIL, THE GOVERNMENT HAS HAD TO SCRAMBLE TO SELL AN ADDITIONAL 400,000 BARRELS PER DAY. OVER THE SUMMER, INDUSTRY REPORTS INDICATED THAT IRAN HAD DIFFICULTY IN FINDING NEW BUYERS FOR ABOUT HALF THAT AMOUNT. TO HANDLE THE REMAINDER, IRAN FACED THE CHOICE OF DISCOUNTING THE OIL IN ORDER TO UNLOAD IT, OR STORING IT IN THE HOPES OF SELLING IT LATER AT A BETTER PRICE. IRAN CHOSE TO WAIT. THE RESULTING COSTS INCLUDE DELAYED OIL REVENUES, INCREASED TANKER CHARTERING COSTS AND INCREASED CRUDE OIL STORAGE COSTS. ALTHOUGH THESE COSTS ARE SHORT-TERM EXPENSES, IT IS CLEAR THAT OUR EMBARGO HAS CUT INTO IRAN'S AVAILABLE HARD CURRENCY. IRAN'S MARKETING DIFFICULTIES HAVE EASED SOMEWHAT LATELY, IN PART FROM INCREASED WINTER DEMAND IN EUROPE. WE ARE CONTINUING OUR DIPLOMATIC EFFORTS TO LIMIT IRAN'S OIL SALES.

OUR EMBARGO HAS HAD A THIRD ADVERSE IMPACT. BY AGGRAVATING IRAN'S CASH CRUNCH, WE ARE WEAKENING THE GOVERNMENT'S ABILITY TO MEET ITS EXTERNAL EXPENSES. MOREOVER, IRAN'S FINANCIAL REPUTATION WILL ONLY WORSEN, BECAUSE THE GOVERNMENT'S DEBT PAYMENTS ARE SCHEDULED TO DOUBLE IN 1996.

KEY DEFENSIVE BLOCK

OUR EMBARGO HAS EXACERBATED IRAN'S DIFFICULTY IN GAINING EASY ACCESS TO FOREIGN CAPITAL. WE NEED TO KEEP IT THAT WAY. BEFORE WE IMPOSED SANCTIONS ON OUR COMMERCIAL TRADE, OTHER GOVERNMENTS POINTED TO AMERICAN COMMERCE WITH IRAN AS A RATIONALIZATION FOR PROMOTING BILATERAL TRADE AND PROVIDING FINANCIAL ASSISTANCE TO IRAN. SUCH ASSISTANCE, WHICH INCLUDES NEW OFFICIAL CREDITS AND DEVELOPMENT AID, GIVES IRAN NEW FINANCIAL RESOURCES. BY SEVERING THE ECONOMIC ACTIVITY BETWEEN THE UNITED STATES AND IRAN, WE INCREASED THE POLITICAL PRICE OF SUCH DEALINGS WITH IRAN. SINCE WE IMPOSED THE EMBARGO, IRAN'S KEY TRADING PARTNERS HAVE NOT EXTENDED ANY NEW OFFICIAL CREDITS. JAPAN CONTINUES TO POSTPONE THE SECOND INSTALLMENT ON A MULTIMILLION DOLLAR LOAN TO BUILD A HYDROELECTRIC DAM ON IRAN'S KARUN RIVER. AND THE FRENCH GOVERNMENT HAS TOLD US IT WILL NOT PROVIDE THE FRENCH FIRM TOTAL WITH OFFICIAL SUPPORT FOR ITS INVESTMENT IN THE FORMER CONOCO DEAL. MY POINT IS THIS: EVEN IF OTHER GOVERNMENTS HAVE NOT RUSHED TO COPY U.S. POLICY, THE STEPS WE HAVE TAKEN HAVE ENCOURAGED THEM TO LIMIT THE SCOPE OF THEIR COMMERCIAL RELATIONS WITH IRAN.

OUR INVESTMENT SANCTIONS PROHIBIT AMERICAN CONTRIBUTIONS TO THE DEVELOPMENT OF IRAN'S ECONOMY, PARTICULARLY THE PETROLEUM SECTOR. WE WANT TO MAKE IT HARDER FOR IRAN TO EXPLOIT THESE PETROLEUM RESOURCES BY DENYING IT FREE ACCESS TO INTERNATIONAL FINANCE AND GOVERNMENT AID. THAT WAS WHY THE PRESIDENT BLOCKED CONOCO, AN AMERICAN COMPANY, FROM WORKING WITH IRAN, AND THAT IS WHY IT IS IMPORTANT FOR US TO CONVINCE OTHER GOVERNMENTS TO TAKE SIMILAR MEASURES. A STRAIGHT LINE LINKS IRAN'S OIL INCOME AND ITS ABILITY TO SPONSOR TERRORISM, BUILD WEAPONS OF MASS DESTRUCTION, AND ACQUIRE SOPHISTICATED ARMAMENTS. ANY GOVERNMENT OR

PRIVATE COMPANY THAT HELPS IRAN EXPAND ITS OIL RESERVES MUST ACCEPT THAT IT IS INDIRECTLY CONTRIBUTING TO THIS MENACE.

IN THE MONTHS AHEAD, WE WILL BE CLOSELY WATCHING THE ACTIONS OF OTHER GOVERNMENTS. THE DECISION OF THE FRENCH FIRM, TOTAL, TO TAKE UP THE CONOCO DEAL IS EXTREMELY REGRETTABLE. WE STRONGLY URGED TOTAL TO RECONSIDER ITS DECISION, AND ADVISED OTHERS TO REFRAIN FROM SIMILAR ACTIONS.

MR. CHAIRMAN, IT IS IMPORTANT TO NOTE THAT WE DO NOT UNDERESTIMATE THE IMPACT OF OUR POLICY ON AMERICAN BUSINESS. THESE STEPS WERE NECESSARY TO STRENGTHEN OUR EFFORTS TO PRESSURE IRAN TO ABANDON THOSE PRACTICES THAT AFFECT OUR COUNTRY'S NATIONAL SECURITY INTERESTS. WE BELIEVE OTHER GOVERNMENTS SHOULD ALSO ACT RESPONSIBLY AND TAKE SIMILAR STEPS TO DETER IRAN'S THREATENING BEHAVIOR. THE ISSUE OF IRAN REMAINS AT THE TOP OF THIS COUNTRY'S DIPLOMATIC AGENDA. THE HIGHEST LEVEL OFFICIALS IN THIS ADMINISTRATION WILL CONTINUE TO PRESS OUR CASE ON IRAN WITH OUR COUNTERPARTS FROM OTHER COUNTRIES.

U.S. LEADERSHIP

IRAN FEARS THE IMPACT OF OUR EFFORTS TO MOBILIZE INTERNATIONAL PRESSURE. THESE FEARS CAUSED TEHRAN TO BEGIN A CAMPAIGN TO SECURE FOREIGN INVESTMENT IN THE COUNTRY'S PETROLEUM SECTOR. THE IRANIAN GOVERNMENT HAS TWO OBJECTIVES FOR THIS CAMPAIGN: TO ACQUIRE MUCH-NEEDED HARD CURRENCY AND TO DRIVE A WEDGE BETWEEN THE UNITED STATES AND OUR ALLIES. WE SHOULD NOT LET IRAN UNDERMINE OUR POLICY IN EITHER WAY.

IT WOULD BE A MISTAKE FOR US TO EXAGGERATE THE GAP BETWEEN OUR POLICY AND THAT OF MOST OTHER INDUSTRIALIZED NATIONS TOWARD IRAN. IN MY DISCUSSIONS WITH TOP OFFICIALS OF THE G-7 COUNTRIES, FOR EXAMPLE, MY COUNTERPARTS EXPRESS THEIR SHARED CONCERNS ABOUT IRAN'S PURSUIT OF WEAPONS OF MASS DESTRUCTION, ITS SUPPORT OF TERRORISM, AND ITS CONTINUED MILITARY BUILD-UP. BECAUSE OF THESE CONCERNS, G-7 COUNTRIES REFUSE TO ENGAGE IN ANY NUCLEAR COOPERATION WITH IRAN, AND THEY PROHIBIT EXPORTS TO THE IRANIAN MILITARY OF ARMS OR SENSITIVE

DUAL-USE TECHNOLOGY. IN FACT, A REVIEW OF OUR REGULAR CONSULTATIONS WITH THESE GOVERNMENTS REVEALS MUCH COMMON GROUND. WE HAVE DIFFERED ONLY IN OUR VIEW OF THE MOST EFFECTIVE WAY TO COUNTER THIS OBJECTIONABLE BEHAVIOR.

WE DO NOT BELIEVE THAT ENGAGEMENT WITH IRAN, AS ADVOCATED BY SOME OF OUR FRIENDS, WILL ALTER IRAN'S OBJECTIONABLE BEHAVIOR. DESPITE THIS ENGAGEMENT, IRAN'S ACTIONS HAVE NOT CHANGED, AND IN SOME AREAS HAVE BECOME MORE THREATENING. THAT IS WHY WE CHOSE TO INTENSIFY U.S. LEADERSHIP BY UNILATERALLY IMPOSING NEW SANCTIONS. WE ACTED DECISIVELY AND EFFECTIVELY, AS WE HAVE IN THE PAST. WE WERE THE FIRST TO PROHIBIT EXPORTS TO IRAN OF WEAPONS AND TECHNOLOGY. KEY FRIENDS AND ALLIES JOINED US. NOW WE HAVE TAKEN THE LEAD TO CUT OFF THE FLOW OF REVENUES TO THE IRANIAN GOVERNMENT. WE HAVE DECLARED TO THE WORLD THAT IT IS UNACCEPTABLE TO PROVIDE ASSISTANCE -- WHETHER THROUGH CREDIT, AID, TRADE, OR INVESTMENT -- TO A GOVERNMENT THAT ENGAGES IN POLICIES THAT CHALLENGE OUR CORE INTERESTS.

THE QUESTION AT HAND IS: HOW CAN WE MOST EFFECTIVELY CONVINCE OTHER GOVERNMENTS TO JOIN US?

ONE PROPOSAL CALLS FOR THE UNITED STATES TO BOYCOTT THOSE FOREIGN FIRMS THAT ENGAGE IN ANY BUSINESS ACTIVITY WITH IRAN. WE HAVE CAREFULLY REVIEWED THIS PROPOSAL, AND REJECTED IT FOR TWO REASONS. WE BELIEVE A FULL SECONDARY BOYCOTT WOULD PUT AT RISK THE COOPERATION ON IRAN POLICY THAT WE SHARE WITH OTHERS -- PARTICULARLY COOPERATION ON CRITICAL MATTERS SUCH AS DENYING IRAN WEAPONS. WE ALSO BELIEVE THAT SUCH INTERFERENCE IN THE INTERNATIONAL MARKETPLACE WOULD BACKFIRE, HURTING AMERICAN BUSINESSES AND HARMING THE AMERICAN ECONOMY.

ANOTHER PROPOSAL -- SUGGESTED BY YOUR NEW BILL -- IS TO IMPOSE TARGETED SANCTIONS ON FOREIGN COMPANIES THAT PROVIDE IRAN'S PETROLEUM INDUSTRY WITH EQUIPMENT OR TECHNOLOGY. THIS ACTION WOULD CREATE ADDITIONAL DISINCENTIVES FOR EUROPEAN TRADE AND INVESTMENT WITH IRAN. YET, IT COULD ALSO HAVE NEGATIVE IMPLICATIONS FOR U.S. ECONOMIC INTERESTS BY UPSETTING OUR RELATIONS WITH KEY ALLIES AND FOREIGN INDUSTRY.

FOR EXAMPLE, OUR PARTNERS IN GATT, WTO, AND NAFTA WOULD ARGUE STRONGLY THAT EVEN A LIMITED SECONDARY BOYCOTT VIOLATES OUR OBLIGATIONS UNDER THESE AGREEMENTS. THEIR EFFORTS TO CHARGE US WITH CREATING TRADE BARRIERS COULD DISADVANTAGE U.S. EXPORTERS. MOREOVER, IT WOULD BE DIFFICULT TO SQUARE A U.S. SECONDARY BOYCOTT WITH THE FREE TRADE RHETORIC WITH WHICH WE PRESS ARAB GOVERNMENTS TO REMOVE THEIR SECONDARY AND TERTIARY BOYCOTTS ON ISRAEL. THE SHARPLY CONTRASTING NATURES OF THE TWO GOVERNMENTS IN QUESTION WOULD NOT SHIELD US FROM CHARGES OF INCONSISTENCY, WHICH MIGHT LESSEN OUR ABILITY TO PERSUADE OTHER COUNTRIES OF OUR APPROACH ON EITHER ISSUE.

OTHER CONCERNS WE MUST ALL ADDRESS INCLUDE OUR ABILITY TO COMPREHENSIVELY MONITOR THE ACTIVITIES OF FOREIGN COMPANIES, THE LIKELY NEGATIVE REACTION OF SOME OF OUR ALLIES, AND THE IMPACT ON U.S. ECONOMIC COMPETITIVENESS. MOST IMPORTANTLY, WE WOULD NEED TO ASSESS WHETHER ANY ADDITIONAL ACTION WOULD CONTRIBUTE TO OUR GOAL OF GAINING INTERNATIONAL SUPPORT FOR PRESSURE ON IRAN. THE MOST EFFECTIVE MEANS OF INCREASING THIS PRESSURE IS THROUGH MULTILATERAL ACTION. PRIOR TO CONSIDERING ANY CHANGE IN THE NEW SANCTIONS, THIS ADMINISTRATION INTENDS TO ENGAGE OUR ALLIES FURTHER IN THE PURSUIT OF INCREASING IRAN'S ECONOMIC ISOLATION. THROUGH CONTINUED CONSULTATIONS AND INFORMATION-SHARING, WE HAVE ENDEAVORED TO STRESS THE DAMAGE TO OUR COMMON INTERESTS POSED BY IRAN'S ACTIVITIES, AND ARGUED THAT THE MOST EFFECTIVE MEANS OF CURBING THESE ACTIVITIES IS THROUGH MULTILATERAL PRESSURE. I BELIEVE IN THE COMING MONTHS OUR EXTENSIVE, HIGH LEVEL CONTACTS WITH OTHER GOVERNMENTS MAY WELL SUCCEED IN GAINING A DEGREE OF INCREASED COOPERATION. IN ADDITION TO OUR EXHORTATIONS, CONTINUED IRANIAN INTRANSIGENCE ON SUCH ISSUES AS THE RUSHDIE FATWA MAY FINALLY CONVINCE EUROPEAN NATIONS OF THE FUTILITY OF ENGAGING IRAN. IRAN'S POOR CREDIT RATING ALSO ADDS AN ECONOMIC DISINCENTIVE TO THE PROSPECT OF NEW ASSISTANCE.

OUR CURRENT APPROACH OF LEADING BY EXAMPLE AND WORKING COOPERATIVELY WITH ALLIES NEEDS TO BE GIVEN A

REAL CHANCE TO WORK. THAT WILL TAKE TIME. OUR PATIENCE, HOWEVER, IS NOT ENDLESS. IF, AFTER A REASONABLE PERIOD OF TIME, DIPLOMACY ALONE PROVES INADEQUATE IN ACHIEVING AN ACCEPTABLE LEVEL OF MULTILATERAL SUPPORT FOR OUR EFFORTS, WE COULD THEN CONSIDER ADDITIONAL APPROACHES.

A COMPREHENSIVE POLICY

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO REMIND THE COMMITTEE THAT OUR POLICY OF ECONOMIC PRESSURE IS COMPLEMENTED BY OUR CEASELESS EFFORTS TO CONVINCE OTHER GOVERNMENTS NOT TO CONTRIBUTE TO IRAN'S PURSUIT OF WEAPONS OF MASS DESTRUCTION OR ITS MILITARY BUILD-UP. OUR DIPLOMACY HAS AFFECTED A REMARKABLE CONSENSUS AMONG THE 28 COUNTRIES PARTICIPATING IN TALKS FOR THE COCOM SUCCESSOR REGIME. THEY AGREE ON THE NEED TO PREVENT IRAN AND OTHER PARIAH STATES FROM ACQUIRING NEW WEAPONS OR MILITARY CAPABILITIES. WE ARE EQUALLY VIGOROUS IN CALLING ON ALL STATES TO AVOID ANY COLLABORATION WITH IRAN THAT MIGHT LEAD TO A NUCLEAR WEAPONS CAPABILITY. AT HALIFAX, THE G-7 LEADERS VOICED THEIR PUBLIC SUPPORT FOR THIS POLICY. RUSSIAN AND CHINESE COOPERATION WITH IRAN REMAINS A CRITICAL CONCERN TO US, AND WE CONTINUE OUR HIGH-LEVEL DIALOGUE WITH SENIOR OFFICIALS IN BOTH COUNTRIES. OUR EFFORTS TO PERSUADE THEM TO HALT COOPERATION THAT CAN ASSIST IRAN'S NUCLEAR OR OTHER WMD PROGRAMS ARE CONTINUING. ULTIMATELY, WE HOPE THAT BOTH RUSSIA AND CHINA WILL CONCLUDE THAT ANY FORM OF COOPERATION THAT EVEN REMOTELY ASSISTS IRAN'S SEARCH FOR NUCLEAR WEAPONS IS SIMPLY TOO RISKY, AND WILL EVENTUALLY POSE A THREAT FIRST AND FOREMOST TO THEIR OWN NATIONAL SECURITY.

IN SUMMARY, MR. CHAIRMAN, WE BELIEVE THAT OUR EFFORTS TO INTENSIFY PRESSURE AGAINST IRAN ARE MAKING PROGRESS, AND THAT THE EMBARGO WILL MAKE AN IMPORTANT CONTRIBUTION. MORE IS BEING DONE, ESPECIALLY TO WIN GREATER SUPPORT FROM OUR FRIENDS AND ALLIES, ABOVE ALL IN THE AREA OF INVESTMENT AND FINANCIAL ASSISTANCE. AMERICAN LEADERSHIP HAS BEEN AND WILL CONTINUE TO BE CRITICAL TO EFFECTIVELY PRESSING IRAN TO CHANGE ITS BEHAVIOR. WE ARE GRATEFUL FOR CONGRESSIONAL SUPPORT FOR OUR ACTIONS, AND TO YOU, MR. CHAIRMAN, FOR YOUR EFFORTS TO FOCUS ATTENTION ON THIS VERY IMPORTANT ISSUE.

PREPARED STATEMENT OF JOHN C. GANNON

DEPUTY DIRECTOR FOR INTELLIGENCE, CENTRAL INTELLIGENCE AGENCY
WASHINGTON, DC

SANCTIONS AGAINST IRAN

OCTOBER 11, 1995

Thank you, Mr. Chairman. I am pleased to be able to meet with you this morning. I propose to make some brief general remarks, after which I would be glad to answer any questions you may have in the unclassified arena.

In my remarks, I will offer our assessment of both the short-term and long-term impact of the sanctions implemented against Iran last May.

- We have already seen some short-term effects—including some disruption in the oil sector and an increase in domestic prices.
- Over the longer term, tightened sanctions are unlikely to have a major impact on the already deteriorating Iranian economy without strong international backing. We believe this backing will be difficult to obtain.
- Finally, I will offer our view that the current Iranian regime, despite its economic problems, has a much better-than-even chance of remaining in power over the next 3 years.

The Short-Term Economic Impact of Sanctions

I will first discuss the immediate effect of the sanctions. Despite dismissive public statements by senior Iranian officials, the sanctions have caused temporary economic and psychological blows to Tehran.

- The ban has fueled domestic price increases and volatility in Tehran's foreign exchange market.
- In late May, the Government imposed strict foreign exchange controls to prevent a further drop in the value of the rial—which fell by a third in the 2 weeks after the embargo was announced. The rial has since recovered to roughly pre-sanction levels.

The ban has also prompted some disruptions in the oil sector, including higher costs associated with lining up new buyers for Iranian oil.

- The embargo has set Iranian officials scrambling to establish new contracts for the roughly 400,000 barrels per day of oil that U.S. companies bought during the first 4 months of the year.
- Tehran has opted to market more of its oil abroad rather than directly from its export terminals. This has resulted in somewhat higher transportation and storage costs.
- Iran has increased spot oil sales to customers in Europe and South Africa. It is working to increase long-term contractual sales to both existing and new customers. Tehran is trying to conclude a deal with South Africa to store up to 15 million barrels of Iranian oil and sell its oil through a joint Iranian-South African company.

Longer-Term Impact

Over the longer term, the sanctions are likely to have little impact on Iran's weakening economy, which is driven primarily by oil exports.

- Iran will maintain its oil sales because it uses sophisticated marketing tactics and because its crude oil is of good quality.
- The ban will not stop major new development projects or prevent maintenance and repairs. At most, it will raise prices, disrupt individual Iranian businesses, and possibly delay some infrastructure projects.
- Iran continues to have other trading options. As early as 1980, it was cultivating alternative suppliers to replace U.S. equipment and has established ties with hundreds of foreign companies.
- Even the strong growth in U.S. exports to Iran in the early 1990's reflected only an Iranian preference for, not dependence on, U.S. goods.

Sanctions Support from Other Countries

As you know, Mr. Chairman, the strong and sustained support of other countries is essential for sanctions to succeed. The long-term effect on Iran's economy will be minimal unless many more countries join the embargo or withhold significant loans. To date, there has been little international support.

- A few countries do support the embargo—Israel, El Salvador, and Ivory Coast, for example. But these countries have limited economic dealings with Tehran.

Western governments—including many of our European allies—have voiced doubts about the potential impact of sanctions on Iranian behavior. They argue that engagement, not isolation, of Iran offers the best *hope* of moderating Tehran's behavior.

- Those with significant credit exposure to Iran—Germany, Japan, Italy—believe supporting sanctions would jeopardize Iranian debt payments.
- They also are concerned that joining the ban would threaten their efforts to expand commercial opportunities for their firms.

We have seen a couple of recent exceptions to this trend.

- Japan decided to delay the release of the second tranche—about \$460 million—of a loan to finance building a hydroelectric project because of the new sanctions.
- Paris has said it will not provide the French energy firm Total with official support for its involvement in Iran's Sirri offshore oil project—the former Conoco deal.
- Other countries have said they might change their policy if other major trading nations did so, or if they had more concrete information on Iran's support for terrorism, its active opposition to the Middle East Peace Process, its violation of human rights at home, and its pursuit of weapons of mass destruction.

Prospects for the Iranian Regime

As for the future of Iran's regime, we now give it a three-in-four chance to stay in power over the next 3 years, despite the worsening economy.

- Opposition to the government is weak, divided, and tainted by ties to Iraq—which, as you know, fought an 8-year war with Iran.
- Judging from past experience, the clergy will likely close ranks against any perceived threats to the regime. Government stability depends largely on the clergy's ability to present a united front in times of crisis. It has done this throughout the life of the Islamic Republic.
- Moreover, unrest over economic conditions so far has been spontaneous and poorly coordinated. Protesters have focused more on specific grievances, such as water shortages and fuel prices, than on unseating the mullahs.
- Finally, Iran's security forces characteristically employ lethal force to restore order, as they did in the northwestern Iranian city of Qazvin in August 1994 and in the southern Tehran suburbs of Eslamshahr and Akbarabad in April of this year.

The longer term outlook for regime leaders, of course, is much less certain.

- We expect economic conditions to continue to deteriorate, independent of sanctions. Iran's economy will experience little or no growth and will suffer continued high inflation over the next several years. These problems will be compounded by the country's fast-growing population—which has increased by a staggering 70 percent in the past 16 years.
- Many observers expect that Iran will be forced to request another round of debt rescheduling next year. At that time, the bulk of its rescheduled payments will begin to come due.
- As living conditions grow harder, public unrest, including demonstrations, will probably increase. This will make it more difficult for the regime to maintain stability.

In closing, let me say that we at the CIA are sensitive to your concerns—and those of Administration officials and Congress—on this issue. We will continue as a high priority to monitor and report on political and economic developments in Iran and on Tehran's ability to cope with U.S. sanctions.

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Associate General Counsel
 JUSTIN J. FINCHER



October 11, 1995

Senator Alfonse D'Amato
 United States Senate
 Washington, D.C. 20510

Dear Senator D'Amato:

We commend the Committee for convening today's hearings on the Iran Foreign Oil Sanctions Act of 1995 and appreciate the opportunity to register the Anti-Defamation League's support for this important initiative. This legislation complements existing U.S. trade sanctions and serves as an additional tool in the fight against Iran's support for international terrorism.

There are already some indications that the U.S. trade ban has had political and possibly economic effects on Iran. Enactment of this legislation will further curtail Iran's ability to develop nuclear weapons and hinder its support of international terrorist activities.

As Iran embarks on a diplomatic offensive to reach out to new allies, expanding the scope of U.S. sanctions by targeting additional foreign oil revenues would enhance U.S. ability to achieve multilateral isolation of Iran.

Sincerely,

Lisa Klinghoffer *Leon Klinghoffer* *Abraham H. Foxman*
 Lisa Klinghoffer Leon and Marilyn Klinghoffer Memorial Foundation
 of the Anti-Defamation League

cc: Jess N Hordes, Washington Representative

104TH CONGRESS
1ST SESSION

S. 1228

To impose sanctions on foreign persons exporting petroleum products, natural gas, or related technology to Iran.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 8 (legislative day, SEPTEMBER 5), 1995

Mr. D'AMATO (for himself, Mr. INOFFE, Mr. PRESSLER, Mr. FAIRCLOTH, and Mr. KOHL) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To impose sanctions on foreign persons exporting petroleum products, natural gas, or related technology to Iran.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the "Iran Foreign Oil Sanc-
5 tions Act of 1995".

6 SEC. 2. FINDINGS.

7 The Congress makes the following findings:

8 (1) The efforts of the Government of Iran to
9 acquire weapons of mass destruction and the means
10 to deliver them endanger potentially the national se-

1 curity and foreign policy interests of the United
2 States and those countries with which it shares com-
3 mon strategic and foreign policy objectives.

4 (2) The objective of preventing the proliferation
5 of weapons of mass destruction through existing
6 multilateral and bilateral initiatives requires addi-
7 tional efforts to deny Iran the financial means to
8 sustain its nuclear, chemical, biological, and missile
9 weapons programs.

10 **SEC. 3. DECLARATION OF POLICY.**

11 The Congress declares that it is the policy of the
12 United States to deny Iran the ability to fund the develop-
13 ment and acquisition of weapons of mass destruction and
14 the means to deliver them by preventing Iran from acquir-
15 ing equipment that would enhance Iran's ability to extract,
16 refine, process, store, or transport petroleum, petroleum
17 products, or natural gas.

18 **SEC. 4. IMPOSITION OF SANCTIONS ON FOREIGN PERSONS**
19 **EXPORTING PETROLEUM PRODUCTS, NATU-**
20 **RAL GAS, OR RELATED TECHNOLOGY TO**
21 **IRAN.**

22 (a) IN GENERAL.—The President shall impose the
23 mandatory sanctions in section 5(1) and may impose one
24 or more of the discretionary sanctions described in section
25 5(2), if the President determines that a foreign person

1 subject to this section has, with requisite knowledge, on
2 or after the date of enactment of this Act, exported, trans-
3 ferred, or released to Iran, its nationals, or entities con-
4 trolled by Iran or its nationals any goods or technology
5 identified on the List of Petroleum and Natural Gas-Re-
6 lated Goods and Technology established by section 9
7 (hereafter in this Act referred to as the “List”)—

8 (1) through the export from the United States
9 of any goods or technology identified in the List that
10 is subject to the jurisdiction of the United States, or

11 (2) through the export from any other country
12 or territory of any goods or technology identified in
13 the List that would be, if they were United States
14 goods or technology, subject to the jurisdiction of
15 the United States and subject to the restrictions set
16 forth in this section.

17 (b) PERSONS AGAINST WHICH THE SANCTIONS ARE
18 TO BE IMPOSED.—The sanctions described in subsection
19 (a) shall be imposed on—

20 (1) the foreign person with respect to whom the
21 President makes the determination described in that
22 subsection;

23 (2) any successor entity to that foreign person;

24 (3) any foreign person that is a parent or sub-
25 sidiary of that person if that parent or subsidiary

1 with requisite knowledge engaged in the activities
2 which were the basis of that determination; and

3 (4) any foreign person that is an affiliate of
4 that person if that affiliate with requisite knowledge
5 engaged in the activities which were the basis of that
6 determination and if that affiliate is controlled in
7 fact by that person.

8 **SEC. 5. DESCRIPTION OF SANCTIONS.**

9 The sanctions to be imposed on a foreign person
10 under section 4(a) are as follows:

11 (1) MANDATORY SANCTIONS.—

12 (A) PROCUREMENT SANCTION.—The United
13 States Government shall not procure, or
14 enter into any contract for the procurement of,
15 any goods or services from such sanctioned foreign
16 person or any parent, subsidiary, affiliate,
17 or successor entity thereof, as described in section
18 4(b).

19 (B) EXPORT SANCTION.—(i) The United
20 States Government shall not issue any license
21 or grant any other permission or authority to
22 export any goods or technology to a sanctioned
23 foreign person under—

24 (I) the Export Administration Act of
25 1979;

1 (II) the Arms Export Control Act;
2 (III) the Atomic Energy Act of 1954;
3 or
4 (IV) any other statute that requires
5 the prior review and approval of the Unit-
6 ed States Government as a condition for
7 the exportation of goods and services, or
8 their re-export, to any foreign person des-
9 ignated by the President as violating this
10 section.

11 (ii) Sanctioned foreign persons shall be in-
12 cluded within the Table of Denial Orders for
13 general and validated export licenses for a pe-
14 riod of not less than three years.

15 (C) DENIAL OF ENTRY OF PERSONS INTO
16 THE UNITED STATES.—Sanctioned natural per-
17 sons, and senior executive officers of sanctioned
18 foreign persons that are corporations or part-
19 nerships, shall be ineligible to receive visas and
20 shall be excluded from admission into the Unit-
21 ed States.

22 (2) DISCRETIONARY SANCTIONS.—

23 (A) INVESTMENT IN THE UNITED STATES
24 AUTHORITY TO REVIEW CERTAIN MERGERS, AC-
25 QUISSIONS, AND TAKEOVERS.—The President

1 may exercise his authority under section 721(d)
2 of the Defense Production Act of 1950 to inves-
3 tigate and prohibit mergers, acquisitions, take-
4 overs, and other similar investments in the
5 United States by persons engaged in interstate
6 commerce—

7 (i) if such actions involve foreign per-
8 sons sanctioned under section 4(a); and

9 (ii) if the President finds, in addition
10 to the requirements of section 721(e) of
11 such Act, that the participation of foreign
12 persons, sanctioned by the President under
13 section 4(a), in activities to assist, directly
14 or indirectly, Iran to increase the revenue
15 available to that government by extracting
16 petroleum, natural gas, or other activities
17 related to these product sectors threatens
18 to impair the national security and foreign
19 policy interests of the United States.

20 (B) IMPORT SANCTION.—(i) The importa-
21 tion into the United States of products pro-
22 duced by any sanctioned foreign person, includ-
23 ing any parent, subsidiary, affiliate, or succes-
24 sor entity thereof, may be prohibited.

25 (ii) Clause (i) includes application to—

1 (I) the entry of any “finished prod-
2 uct” or “component part”, whether
3 shipped directly by the manufacturer, or
4 by another entity; and

5 (II) the contracting for the provision
6 of services in the United States or abroad
7 by United States persons and by foreign
8 persons in the United States.

9 (C) PROHIBITION AGAINST EXPORT-IM-
10 PORT BANK ASSISTANCE FOR EXPORTS TO FOR-
11 EIGN PERSONS.—The Export-Import Bank of
12 the United States may not guarantee, insure,
13 extend credit, or participate in the extension of
14 credit in connection with the export of any
15 goods or services to any foreign person that has
16 been made subject to the sanctions pursuant to
17 section 4(a).

18 (D) LOANS FROM UNITED STATES FINAN-
19 CIAL INSTITUTIONS.—The United States Gov-
20 ernment may prohibit any United States finan-
21 cial institution from making any loan or provid-
22 ing any credit to any foreign person sanctioned
23 under section 4(a) unless such foreign person is
24 engaged in activities to relieve human suffering,

1 within the meaning of section 203(b)(2) of the
2 International Emergency Economic Powers Act.

3 (E) PROHIBITIONS ON FOREIGN FINAN-
4 CIAL INSTITUTIONS.—The following prohibi-
5 tions may be imposed against foreign financial
6 institutions sanctioned under section 4(a):

7 (i) DESIGNATION AS PRIMARY DEAL-
8 ER.—Neither the Board of Governors of
9 the Federal Reserve System nor the Fed-
10 eral Reserve Bank of New York may des-
11 ignate, or permit the continuation of any
12 prior designation of, such financial institu-
13 tion as a primary dealer in United States
14 Government debt instruments.

15 (ii) GOVERNMENT FUNDS.—Such fi-
16 nancial institution shall not serve as agent
17 of the United States Government or serve
18 as repository for United States Govern-
19 ment funds.

20 (iii) RESTRICTIONS ON OPER-
21 ATIONS.—Such financial institutions shall
22 not, directly or indirectly—

23 (I) commence any line of busi-
24 ness in the United States in which it
25 was not engaged as of the date of the

1 determination by the President under
2 section 4(a); or

3 (II) conduct business from any
4 location in the United States at which
5 it did not conduct business as of the
6 date of the determination by the
7 President under section 4(a).

8 **SEC. 6. WAIVER AUTHORITY REGARDING SANCTIONS**
9 **AGAINST IRAN.**

10 The sanctions of section 5 shall not apply if the Presi-
11 dent determines and certifies to the appropriate congres-
12 sional committees that Iran—

13 (1) has substantially improved its adherence to
14 internationally recognized standards of human
15 rights;

16 (2) has ceased its efforts to design, develop,
17 manufacture, or acquire—

18 (A) a nuclear explosive device or related
19 materials and technology;

20 (B) chemical and biological weapons;

21 (C) missiles and missile launch technology;

22 or

23 (D) any missile or other delivery system
24 capable of reaching the territory of a country
25 the government of which shares strategic inter-

1 ests with the United States and is engaged in
2 defense cooperation, including the acquisition of
3 items identified in the United States Munitions
4 List, with the United States; and
5 (3) has ceased all forms of support for inter-
6 national terrorism.

7 **SEC. 7. WAIVER OF SANCTIONS AGAINST FOREIGN PER-**
8 **SONS.**

9 (a) CONSULTATIONS.—If the President makes a de-
10 termination described in section 4(a) with respect to for-
11 eign persons, the Congress urges the President, to initiate
12 consultations immediately with the foreign government
13 with primary jurisdiction over that foreign person with re-
14 spect to the imposition of the sanctions pursuant to this
15 section.

16 (1) ACTIONS BY GOVERNMENT OF JURISDIC-
17 TION.—In order to pursue such consultations with
18 that government, the President may delay imposition
19 of the sanctions pursuant to this section within 90
20 days. Following such consultations, the President
21 shall immediately impose sanctions unless the Presi-
22 dent determines and certifies to the Congress that
23 the government has taken specific and effective ac-
24 tions, including the imposition of appropriate pen-
25 alties, to terminate the involvement of the foreign

1 person in the activities that resulted in the imposi-
2 tion of sanctions against the foreign person.

3 (2) ADDITIONAL DELAY IN IMPOSITION OF
4 SANCTIONS.—The President may delay the imposi-
5 tion of sanctions for up to an additional 45 days if
6 the President determines and certifies to the Con-
7 gress that the government with primary jurisdiction
8 over the foreign person is in the process of taking
9 the actions described in paragraph (1).

10 (3) REPORT TO CONGRESS.—Not later than 45
11 days after making a determination under section
12 4(a), the President shall submit to the Committee on
13 Banking, Housing and Urban Affairs of the Senate
14 and the Committee on International Relations of the
15 House of Representatives a report on the status of
16 consultations with the appropriate foreign govern-
17 ment under this subsection, and the basis for any
18 determination under paragraph (2) that such gov-
19 ernment has taken specific corrective actions.

20 (b) ASSURANCES FROM FOREIGN PERSONS.—The
21 President may terminate the sanctions against a foreign
22 person, subject to a determination under section 4(a), if
23 the foreign person provides assurances to the Secretary
24 that the actions that resulted in the determination to im-
25 pose sanctions have been terminated and have provided

1 specific assurances that it will neither directly nor indi-
2 rectly, or through any other person, including subsidiaries
3 and affiliates, direct or participate in any activity to pro-
4 vide to Iran goods or technology on the List.

5 (c) EXCEPTIONS.—The President shall not be re-
6 quired to apply or maintain the sanctions under section
7 4(a)—

8 (1) in the case of procurement of defense arti-
9 cles or defense services—

10 (A) under existing contracts or sub-
11 contracts, including the exercise of options for
12 production quantities to satisfy requirements
13 essential to the national security of the United
14 States;

15 (B) if the President determines in writing
16 that the person or other entity to which the
17 sanction would otherwise be applied is a sole
18 source supplier of the defense articles or serv-
19 ices, that the defense articles or services are es-
20 sential, and that alternative sources are not
21 readily or reasonably available; or

22 (C) if the President determines in writing
23 that such articles or services are essential to the
24 national security under defense coproduction
25 agreements;

1 (2) to products or services provided under con-
2 tracts entered into before the date on which the
3 President publishes his intention to impose the sanc-
4 tion;

5 (3) to—

6 (A) spare parts which are essential to
7 United States products or production;

8 (B) component parts, but not finished
9 products, essential to United States products or
10 production; or

11 (C) routine servicing and maintenance of
12 products, to the extent that alternative sources
13 are not readily or reasonably available;

14 (4) to information and technology essential to
15 United States products or production; or

16 (5) to medicines, medical supplies, or other hu-
17 manitarian items.

18 (d) PRESIDENTIAL NATIONAL SECURITY WAIVER.—

19 (1) The President may waive the requirement in section
20 4(a) to impose a sanction or sanctions on a foreign person
21 in section 4(b), for goods and technology that are not sub-
22 ject to the jurisdiction of the United States, 15 days after
23 the President determines and so reports to the Committee
24 on Banking, Housing, and Urban Affairs of the Senate
25 and the Committee on International Relations of the

1 House of Representatives that it is essential to the na-
2 tional interest of the United States to exercise such waiver
3 authority.

4 (2) Any such report shall provide a specific and de-
5 tailed rationale for such determination, including—

6 (A) a description of the conduct, including the
7 identification of the goods and technology involved in
8 the violation, that resulted in the determination of a
9 violation or violations;

10 (B) an explanation of the efforts to secure the
11 cooperation of the government with primary jurisdic-
12 tion of the foreign person to terminate or penalize
13 the activities that resulted in the determination of a
14 violation;

15 (C) an estimate as to the significance of the
16 goods and technology exported to Iran on that coun-
17 try's ability to extract, refine, process, store, or
18 transport petroleum, petroleum products, or natural
19 gas; and

20 (D) a statement as to the response of the Unit-
21 ed States in the event that such foreign person en-
22 gages in other activities that under this section
23 would constitute an additional violation.

1 **SEC. 8. TERMINATION OF SANCTIONS.**

2 (a) DURATION OF SANCTIONS.—The sanctions im-
3 posed pursuant to this section shall apply for a period of
4 not less than 12 months following the determination by
5 the President under section 4(a) and shall cease to apply
6 thereafter only if the President determines and certifies
7 to the Congress that reliable information indicates that
8 the foreign person with respect to which the determination
9 was made under section 4(a) has ceased to aid or abet
10 Iran, or any individual, group, or entity owned or con-
11 trolled by Iran, to acquire goods and technology on the
12 List.

13 (b) WAIVER.—

14 (1) CRITERION FOR WAIVER.—the President
15 may waive the continued application of any sanction
16 imposed on any foreign person pursuant to this sec-
17 tion, after the end of the 12-month period beginning
18 on the date on which that sanction was imposed on
19 that person, if the President determines and certifies
20 to the Congress that the continued imposition of the
21 sanction would have a serious adverse effect on
22 United States national security.

23 (2) NOTIFICATION OF AND REPORT TO CON-
24 GRESS.—If the President decides to exercise the
25 waiver authority provided in paragraph (1), the
26 President shall so notify the Congress not less than

1 30 days before the waiver takes effect. Such notifica-
2 tion shall include a report fully articulating the ra-
3 tionale and circumstances which led the President to
4 exercise the waiver authority.

5 **SEC. 9. GOODS AND TECHNOLOGY SUBJECT TO EXPORT**
6 **CONTROL RESTRICTIONS.**

7 (a) CONTROL LIST.—(1) For purposes of the deter-
8 minations to be made pursuant to section 4(a), the Presi-
9 dent, in consultation with the Secretary of State and the
10 Secretary of Energy, and the heads of other appropriate
11 departments and agencies, shall establish and maintain
12 the List of Petroleum and Natural Gas-Related Goods and
13 Technology, consisting of goods or technology (including
14 software and technical data) that the President deter-
15 mines materially contribute to the extraction, refining,
16 production, storage, or transportation of petroleum, petro-
17 leum products, or natural gas and the products thereof
18 in or by Iran, including goods and technology that are re-
19 quired for the development, production, or use (including
20 the repair, maintenance, or operation of equipment) for
21 the petroleum and natural gas activities described in this
22 subsection.

23 (2) The President within 60 days of the date of enact-
24 ment of this Act shall cause the List to be published in
25 the Federal Register, together with any regulations nec-

1 essary thereto. Thereafter, any revisions to the List or
2 amendments to the regulations shall be published in the
3 same manner.

4 (3) Not less than 30 days in advance of the publica-
5 tion of the List, it shall be provided to the Committee on
6 Banking, Housing, and Urban Affairs of the Senate and
7 to the Committee on International Relations of the House
8 of Representatives. The President shall consult with such
9 Committees regarding the content of the List and shall
10 respond to questions regarding the basis for the inclusion
11 on, or exclusion from, the List of specified goods and tech-
12 nologies.

13 (4) The President may delegate the functions of this
14 subsection to the Secretary of Commerce.

15 (b) STATUTORY CONSTRUCTION.—Nothing in this
16 section prevents the inclusion on the List of any goods
17 or technology that may be produced in and traded inter-
18 nationally by companies in countries with which the
19 United States cooperates in controlling the export of goods
20 and technology to prevent the proliferation of weapons of
21 mass destruction and the means to deliver them, or in any
22 other country.

23 **SEC. 10. REPORT REQUIRED.**

24 Beginning 60 days after the date of enactment of this
25 Act, and every 90 days thereafter, the President shall

1 transmit to the appropriate congressional committees a re-
2 port describing—

3 (1) the nuclear and other military capabilities
4 of Iran; and

5 (2) the support, if any, provided by Iran for
6 acts of international terrorism.

7 **SEC. 11. DEFINITIONS.**

8 As used in this Act:

9 (1) **ACT OF INTERNATIONAL TERRORISM.**—The
10 term “act of international terrorism” means an
11 act—

12 (A) which is violent or dangerous to
13 human life and that is a violation of the crimi-
14 nal laws of the United States or of any State
15 or that would be a criminal violation if commit-
16 ted within the jurisdiction of the United States
17 or any State; and

18 (B) which appears to be intended—

19 (i) to intimidate or coerce a civilian
20 population;

21 (ii) to influence the policy of a govern-
22 ment by intimidation or coercion; or

23 (iii) to affect the conduct of a govern-
24 ment by assassination or kidnapping.

1 (2) APPROPRIATE CONGRESSIONAL COMMIT-
 2 TEES.—The term “appropriate congressional com-
 3 mittees” means the Committees on Banking, Hous-
 4 ing and Urban Affairs and Foreign Relations of the
 5 Senate and the Committees on Banking and Finan-
 6 cial Services and International Relations of the
 7 House of Representatives.

8 (3) COMPONENT PARTS.—The term “compo-
 9 nent parts” has the meaning given the term in sec-
 10 tion 11A(e)(1) of the Export Administration Act of
 11 1979 (50 U.S.C. App. 2410a(e)(1)).

12 (4) FINANCIAL INSTITUTION.—The term “fi-
 13 nancial institution” includes—

14 (A) a depository institution (as defined in
 15 section 3(e)(1) of the Federal Deposit Insur-
 16 ance Act), including a branch or agency of a
 17 foreign bank (as defined in section 1(b)(7) of
 18 the International Banking Act of 1978);

19 (B) a credit union;

20 (C) a securities firm, including a broker or
 21 dealer;

22 (D) an insurance company, including an
 23 agency or underwriter;

24 (E) any other company that provides fi-
 25 nancial services; or

1 (F) any subsidiary of such financial insti-
2 tution.

3 (5) FINISHED PRODUCTS.—The term “finished
4 products” has the meaning given the term in section
5 11A(e)(2) of the Export Administration Act of 1979
6 (50 U.S.C. App. 2410a(e)(2)).

7 (6) FOREIGN PERSON.—The term “foreign per-
8 son” means—

9 (A) an individual who is not a United
10 States national or an alien admitted for perma-
11 nent residence to the United States; or

12 (B) a corporation, partnership, or other
13 nongovernment entity which is not a United
14 States national.

15 (7) IRAN.—The term “Iran” includes any agen-
16 cy or instrumentality of Iran.

17 (8) NUCLEAR EXPLOSIVE DEVICE.—The term
18 “nuclear explosive device” means any device, wheth-
19 er assembled or disassembled, that is designed to
20 produce an instantaneous release of an amount of
21 nuclear energy from special nuclear material that is
22 greater than the amount of energy that would be re-
23 leased from the detonation of one pound of trinitro-
24 toluene (TNT).

1 (9) PERSON.—The term “person” means a nat-
 2 ural person as well as a corporation, business asso-
 3 ciation, partnership, society, trust, any other non-
 4 governmental entity, organization, or group, and any
 5 governmental entity, operating as a business enter-
 6 prise, and any successor of any such entity in the
 7 case of countries where it may be impossible to iden-
 8 tify a specific government entity referred to in para-
 9 graph (2), the term “person” means—

10 (A) all activities of that government relat-
 11 ing to the development or production of any
 12 missile equipment or technology; and

13 (B) all activities of that government affect-
 14 ing the development or production of aircraft,
 15 electronics, and space systems or equipment.

16 (10) PETROLEUM PRODUCTS.—As used in this
 17 section, the term “petroleum products” means crude
 18 oil, residual fuel oil, or any refined petroleum prod-
 19 uct.

20 (11) REQUISITE KNOWLEDGE.—For purposes
 21 of this subsection, the term “requisite knowledge”
 22 means situations in which a person “knows”, as
 23 “knowing” is defined in section 104 of the Foreign
 24 Corrupt Practices Act of 1977 (15 U.S.C. 78dd-2).

1 (12) SENIOR EXECUTIVE OFFICERS.—The term
2 “senior executive officers” includes officers of sanc-
3 tioned foreign persons, or their designees, who are in
4 a position to direct the conduct or implement the
5 policies that resulted in the determination by the
6 President to impose sanctions against the foreign
7 person.

8 (13) UNITED STATES OR STATE.—The term
9 “United States” or “State” means the several
10 States, the District of Columbia, the Commonwealth
11 of Puerto Rico, the Commonwealth of the Northern
12 Mariana Islands, American Samoa, Guam, the Unit-
13 ed States Virgin Islands, and any other territory or
14 possession of the United States.

15 (14) UNITED STATES NATIONAL.—The term
16 “United States national” means—

17 (A) a natural person who is a citizen of the
18 United States or who owes permanent alle-
19 giance to the United States;

20 (B) a corporation or other legal entity
21 which is organized under the laws of the United
22 States, any State or territory thereof, or the
23 District of Columbia, if natural persons who are
24 nationals of the United States own, directly or
25 indirectly, more than 50 percent of the out-

1 standing capital stock or other beneficial inter-
2 est in such legal entity; and
3 (C) any foreign subsidiary of a corporation
4 or other legal entity described in subparagraph
5 (B).



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